INTERCO Annual Report -- 1994
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1994 Annual Report

INTERCO

Focused on Furniture

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Financial Highlights

(In thousands, except per share, employee and statistical data)	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1993	PERCENT CHANGE
From continuing operations:			
Net sales	$1,072, 696	$980,532	+ 9.4%
Net earnings	27,933	21,342	+ 30.9%
As a percent of net sales	2.6%	2.2%	
Net earnings – as adjusted*	40,984	34,141	+ 20.0%
As a percent of net sales	3.8%	3.5%	
Per share of common stock:			
Net earnings	$ 0.54	$ 0.41	+ 31.7%
Net earnings – as adjusted*	$ 0.79	$ 0.66	+ 19.7%
Financial condition at year end (continuing operations):			
Working capital	$ 306,987	$271,588	
Current ratio	4.1 to 1	4.1 to 1	
Total assets	891,878	858,163	
Total long-term debt	426,253	407,994	
Shareholders' equity	275,394	263,488**	
Debt to capitalization ratio	60.8%	60.8%**	
Average common shares – fully diluted	51,506	51,397	
Number of employees	13,800	13,345	

Adjusted to remove the depreciation and amortization related to fair value adjustments, net of taxes.

***Shareholders' equity reduced by net assets of discontinued operations.*

Table of Contents

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Letter To Our Shareholders

During 1994, INTERCO completed the final phase of its transformation from a multi-industry conglomerate to a leading manufacturer focused on the furniture industry.

On November 17, 1994, the Company simultaneously refinanced the majority of its outstanding indebtedness and distributed to holders of its common stock the common stock of The Florsheim Shoe Company and the common stock of Converse Inc., which together represented the Company's footwear group. This transaction resulted in INTERCO becoming the largest, pure residential furniture manufacturing company in the country, with two of the most recognized brand names in the industry – Broyhill and Lane. The changes mark the successful accomplishment of one of INTERCO's long-term strategies, to provide investment opportunities on a line-of-business basis and to provide opportunities for management incentives more closely aligned with the business of each unit, as well as to permit the Company to obtain certain operational and financial benefits.

As an integral part of the restructuring, the Company refinanced the majority of its outstanding indebtedness, which now provides greater financial flexibility in pursuing growth opportunities through both internal operations and external acquisition activities. The Company's new indebtedness is represented by two major components – a $360 million Secured Credit Agreement, encompassing a $285 million term loan facility and a $75 million revolving credit facility (undrawn, except for certain letters of credit outstanding), and – a $150 million Receivables Securitization Facility which utilizes the Company's broad trade receivables base to provide long-term financing at attractive interest rates.

With respect to operations, we continued to be encouraged by the success realized by our operating companies in the application of the twelve building blocks of our gross profit management philosophy, the implementation of which is a key factor in maintaining our leadership position and providing the funding necessary to continue to build our well-known brand names.

Sales during 1994 represented records for both operating companies and resulted from not only an improving U.S. economy and favorable industry conditions, but product offerings and marketing programs that were well received by our customers. Both companies continued to introduce new product collections, while freshening existing product lines with new, exciting additions which emphasize style, innovation and value. Marketing programs included increased use of targeted marketing techniques such as direct mail and customer assistance telemarketing. Consumer advertising continued to be an important part of the marketing effort, ranging from print

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advertising in major shelter magazines to sponsorship in the NASCAR racing circuit.

Earnings from operations for 1994, also a record for each operating company, reflected continued emphasis on gross profit improvement as well as control and reduction of operating expenses. We were particularly encouraged by our operating profitability given the start-up costs incurred in commencing operations of a new $10 million motion and sleep sofa upholstery manufacturing facility and the installation and testing of an $8 million state-of-the-art finishing system, as well as the negative effect from an explosion and fire which destroyed Broyhill's particleboard plant.

The growth in sales and operating earnings in 1994 allowed the Company to finance increased investments in working capital and fund a substantial capital expenditure program totaling approximately $21 million, one of the largest capital spending efforts in the industry. The Company is dedicated to remaining a low-cost producer by investing in new manufacturing technologies, while maintaining existing facilities in peak condition.

Because the Company distributed the entire footwear segment to shareholders, results of operations and financial position for the footwear companies for 1994 and prior years have been reclassified as discontinued operations. Accordingly, the financial results shown in this annual report present the "new" INTERCO – focused on furniture – with all prior year results restated to reflect the new organizational structure.

The Building Blocks of Gross Profit Management

Sales
New products
New customers
New markets
Pricing analysis

Cost of Goods Sold
Cost control
Cost reduction
Low profit product review
Purchasing strategy
Capital utilization
People involvement
Management accountability
Contingency planning

Gross Profit

On a consolidated basis, INTERCO's net sales and earnings from operations were slightly above plan in 1994 and well above results for 1993. Net sales were $1.07 billion, compared to last year's results of $0.98 billion, an increase of 9.4%. Earnings from operations were $85.1 million, compared to $74.1 million in last year's same period, an increase of 14.8%. Each period included charges for depreciation and amortization which resulted from an asset revaluation that occurred when the Company emerged from Chapter 11 reorganization in 1992. At that time, the Company's assets were increased by approximately $380 million to reflect fair market value. Depreciation and amortization related to the fair value adjustments totaled $16.9 million and $16.5 million for 1994 and 1993, respectively. These non-cash charges, which will be ongoing, reduced net earnings per common share by $0.25 for both 1994 and 1993.

Net earnings per common share, from continuing operations on a fully diluted basis, were $0.54 for 1994, an increase of 31.7% over the $0.41 reported for 1993. Excluding depreciation and amortization resulting from the fair value adjustments noted above, net earnings per common

Richard B. Loynd, Chairman and Chief Executive Officer, with INTERCO's team of corporate and operating company executives. From left to right are David P. Howard, Vice President and Chief Financial Officer, INTERCO INCORPORATED; W. G. Holliman, President, Action Industries, Inc.; Richard B. Loynd; K. Scott Tyler, Jr., President, The Lane Company, Incorporated; and Brent B. Kincaid, President, Broyhill Furniture Industries, Inc.

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share from continuing operations would have been $0.79 and $0.66 for 1994 and 1993, respectively.

Incoming business trends at year end remained positive with order rates in the fourth quarter up approximately 6% over the same period a year ago, and order backlogs at levels comparable to last year end despite stronger shipping activity in 1994's fourth quarter.

At December 31, 1994, the Company had long-term debt (including current maturities) of $426.3 million, with a debt to capitalization ratio of 60.8%. No cash borrowings were outstanding from the $75 million revolving credit facility and the company had cash and cash equivalents totaling $32.1 million. The flexible structure of the new debt facilities, coupled with cash generation from operations and the availability of the revolving credit facility, provide the Company with substantial liquidity that permits us to implement our operating strategies and continue to grow the business.

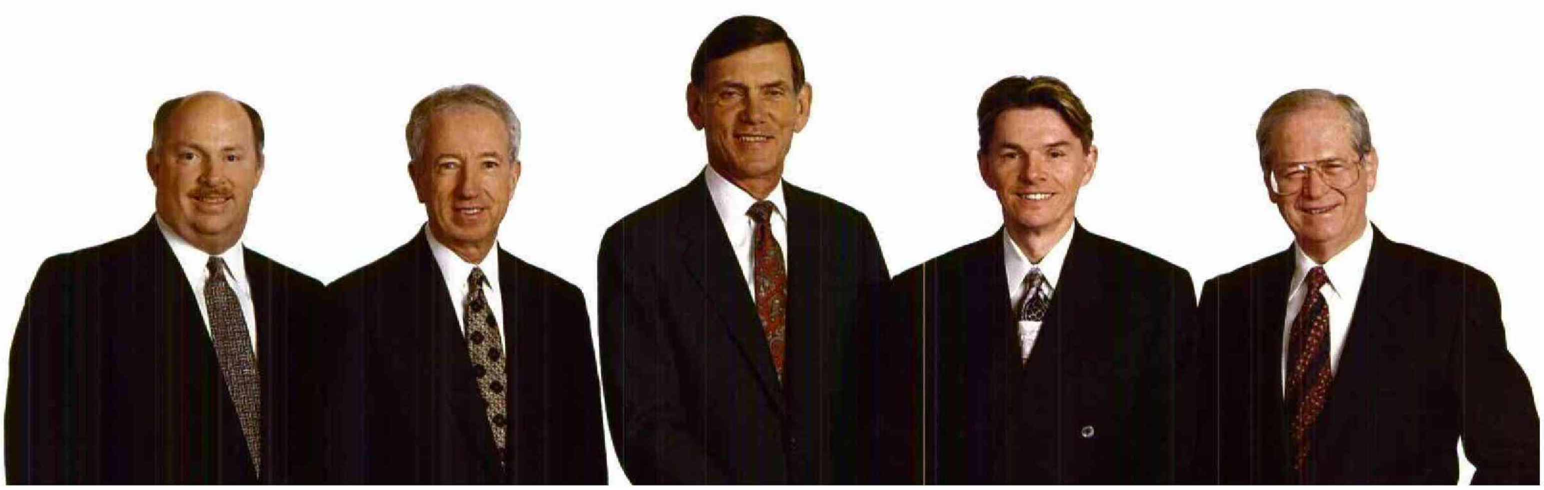
Today, INTERCO is the second largest residential furniture manufacturer in the country in terms of sales and the largest in terms of operating profitability. During 1995, we plan to continue growing our market share as we have over the past three years. We also expect to continue to lead the industry in profitability by emphasizing the fundamentals of gross profit management – new product introductions, innovative marketing and advertising, well-managed cost control and cost reduction efforts and involvement and accountability of all our employees. We also plan to continue to broaden our manufacturing and customer base, both domestic and international. Our goal is to make INTERCO the best and the largest furniture company in the world, in terms of sales, profitability and shareholder value. The INTERCO team is focused on this goal and looks forward with enthusiasm to working together with our suppliers and customers to achieve it as quickly as possible.

We thank you for the confidence you have shown in the INTERCO team. We continue to recognize our responsibility to increase shareholder value and, by the actions taken during 1994, believe we have improved the overall value and at the same time better positioned the Company to achieve its long-term, profitable growth targets. We look forward to the challenges and opportunities in 1995.

Sincerely,

R B Loynd

Richard B. Loynd
Chairman of the Board
and Chief Executive Officer



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Broyhill Furniture Industries, Inc.

Broyhill is one of the largest manufacturers of bedroom, dining room, upholstered and occasional furniture in the U.S. Benefiting from high brand awareness, Broyhill products are immediately recognized for quality, style and excellent value in the medium-price range, the largest segment of the furniture market.

Building the brand name is a key growth strategy for Broyhill. During 1994, consumer advertising was increased with eye-catching, four-page inserts in national shelter magazines. This aggressive campaign achieved more than 600 million consumer impressions. Its consistency and content, which was targeted to consumers who fit the Broyhill profile, encouraged retailers to update their furniture displays with fully accessorized room settings, adding to consumers' appreciation of the Broyhill style. Retailers reacted favorably to the increased support they received. Eight hundred retailers submitted ballots in *Home Furnishings Executive's* 1994 Annual Retailer Reader Opinion Survey and chose Broyhill to receive the prestigious ARROS "Recognition of Excellence" award for dealer support in case goods.

Other key aspects of the Broyhill marketing strategy are emphasis on being a low-cost producer, further expansion in international markets and continual development of products which address consumers' changing lifestyles. Retailers in markets as diverse as Iceland, Saudi Arabia and Japan have joined those already in place across North America in showcasing Broyhill furniture. Recently introduced home theater furniture and stylish, fully reclining furniture both are helping expand Broyhill's product line and market share.

Highland House, a division of Broyhill, which offers a line of high-quality, higher-end upholstered furniture, continued its growth momentum in 1994. Focused on customer preferences, Highland House increased its retail presence and therefore its availability to consumers who seek out the quality and style characteristics found in custom-built furniture. Broyhill's advertising and fully accessorized showroom settings reinforce consumers' perception of the brand as stylish furniture with exceptional quality in its medium-price range.

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The Lane Company, Incorporated

Lane, one of the nation's largest and best known manufacturers of medium- to high-end furniture, has seven divisions serving a broad range of niche markets with more than 3,000 items for home and office. Products include wood, metal, wicker and upholstered furniture and a complete line of reclining furniture.

Lane's growth strategies build upon the strengths of its divisions by focusing on market niches, such as reclining products and cedar chests, where it has commanding presence, and by identifying product opportunities that bring it into attractive new markets. These strategies are supported by innovative marketing and Lane's long-time national advertising program.

In 1994, Lane's largest division, Action Industries, a leading manufacturer of reclining chairs and motion furniture, strengthened its product line with the introduction of new recliners with styling reminiscent of 18th century wing chairs. The chairs combine the comfort of a recliner with a look that appeals to style-conscious consumers. New motion furniture products emphasizing stylish tailoring were also introduced in 1994. Action increased its presence in the sleep sofa market with an extensive introduction of a broad line of new innovative products. A natural extension of Action's outstanding reputation for motion furniture, the new sleep sofa incorporates a patented mechanism and new mattress which sets industry standards for comfort both as a sofa and as a bed. The line is manufactured in a new 400,000 square foot plant in Tupelo, Mississippi.

During 1994, the New Rhythms contemporary collection, featuring designs by New York designer Dakota Jackson, drew extensive attention when it was introduced at the International Home Furnishings Market in April. The New Rhythms line is produced by the Lane Division, which manufactures cedar chests, occasional tables, dining and bedroom furniture and accents, and by Lane Upholstery, a producer of contemporary and traditional upholstered furniture.

Lane's Hickory Chair Company expanded its 18th century and designer wood and upholstered furniture offerings with the new Mount Vernon Collection, based upon furnishings from George Washington's home.

The Venture division had a strong year with its innovative indoor-outdoor wicker and rattan furniture lines, WeatherMaster and Weathercraft. Another Lane division, The Pearson Company, manufactures custom-tailored upholstered furniture. The Hickory Business Furniture (HBF) division added new designs in 1994 to its line of wood and upholstered business furniture.

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Broyhill offers its retailers exceptional product values, unsurpassed brand-name recognition, outstanding dealer support and comprehensive marketing programs which contribute to a profitable business partnership.

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Broyhill's Premier division offers consumers products with exquisite styling and craftsmanship, as in this InnRoads dining room, which are comparable to the standards for other manufacturers' higher-priced furniture.

In 1926, J.E. Broyhill began manufacturing furniture in Lenoir, North Carolina. Through the years, Broyhill has become a full-line manufacturer of both wood and upholstered furniture to decorate every room in a home.

Broyhill continues to expand consumer awareness of

The corporate quality slogan, "Quality Without Compromise," emphasizes Broyhill's commitment to total quality management. A corporate officer oversees the quality program, which includes extensive training, a Broyhill education center and stringent product testing and inspections.

The Broyhill line includes a wide variety of styles, one of which is this classic 18th century Cherry Hill Collection shown with traditional-style upholstery.

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Design innovation and fashion-forward styling are vital for Broyhill to remain a preferred resource for fashion furniture. Designers research changing consumer tastes and travel the world to keep up with style trends.

Broyhill is an industry leader in consumer advertising and communications designed to generate customer traffic for Broyhill retailers. Four-page inserts in national home fashion magazines show stylish furniture and list retail store locations. In 1994, Broyhill advertising generated over 600 million consumer impressions.

the exceptional quality, style, comfort and outstanding value of its

Broyhill products offer consumers excellent values by providing stylish furniture, like this Chesapeake bedroom, at affordable price points.

This home theater unit from the Candlewood Collection demonstrates Broyhill's commitment to this growing furniture segment. Home theater units accommodate 35" televisions and surround-sound for maximum entertainment enjoyment.

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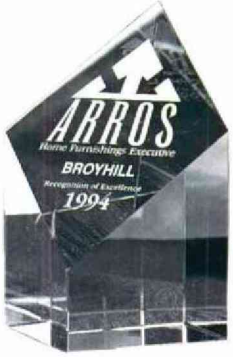
Broyhill provides its retailers a full line of furniture for the home, including home theater and fully reclining upholstery, designed to combine the comfort of a recliner with the stylish good looks of a fashionable sofa.



Broyhill's second consecutive ARROS Award, voted by 800 prominent furniture retailers, and the J.C. Penney "Divisional Supplier of the Year Award" reflect Broyhill's excellent merchandising and conscientious attention to the retailer partnership.

furniture in fully accessorized showrooms and compelling advertising.

Consumers desiring the ultimate in quality construction and tailoring look to Highland House, a division of Broyhill. Each sofa is carefully engineered to provide exceptional seating comfort with eight-way, hand-tied spring construction. Stylish fabrics, exquisitely tailored with pattern flow matched across the furniture, are Highland House hallmarks.

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Lane responded to the growing demand for contemporary designs with the New Rhythms Collection by Dakota Jackson, a style-savvy and award-winning designer. Seating pieces are produced by Lane Upholstery, wood and metal pieces by Lane Division.

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An innovative design idea helped Lane Division launch its Art Exhibit Collection of cedar chests. A decorative, reversible panel, available in nine hand-painted designs, offers the consumer a choice of looks.

All natural wicker, durable enough to stand up to outdoor use, has made Venture's WeatherMaster Collection a leader. The secret is a tough four-step finishing process and patented cushions that allow water to pass through for quick drying.

Lane has built upon its strong brand name and reputation

Hickory Chair Company was selected by the Mount Vernon Foundation to reproduce and market a collection of select pieces from George Washington's home. The collection has been well received by retailers and consumers.

Lane ran its first national ad in the December 1927 issue of THE SATURDAY EVENING POST. Today, Lane's products are advertised in a variety of national shelter magazines.

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Hickory Chair has earned a reputation for exceptional quality and value with its 52-year-old, 300-piece James River Collection. Now it is building upon that brand equity with new offerings such as the European Country Collection, shown below, and the Mount Vernon, Mark Hampton, French and American Digest collections.

Hickory Business Furniture (HBF) has teamed with designer Barbara Barry, who is well known for her work with clients in the banking and entertainment industries, to produce a collection of graceful seating and occasional tables. Her designs draw on unique, timeless and appropriate architectural elements.

for quality, style and value to become one of the nation's largest

The Raffles Collection, named for the 19th century Lieutenant Governor of the Dutch East Indies, captures the charm of a plantation lifestyle in wicker from Venture, in seating from Lane Upholstery, and in living, dining and bedroom pieces from Lane Division.

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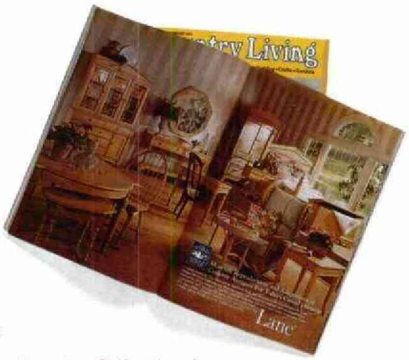

Lane Division's comprehensive collection of home entertainment units meets the growing demand for home theater and contemporary entertainment systems. Lane's market presence is strengthened by its alliance with Sony, a brand-name leader.

The America Collection has been extensively advertised over the last ten years. This ad appeared in early 1995. Consumer response has been strong, resulting in the addition of new products every year.

and best-known manufacturers of medium- to high-end furniture.

Lane Upholstery has been a major part of each new Lane collection over the last three years. Pieces shown are from the Raffles Collection that debuted in October 1993.

The Pearson Company is known for its hand tailoring and skillful use of more than 1,000 of the latest fashion fabrics and leathers. Shown are pieces upholstered in a collection of imported fabrics available only in furniture from Pearson.

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Action entered the high-growth motion furniture market in 1991 and is now the largest producer of motion furniture. Quality, styling and marketing have played key roles in this phenomenal growth.

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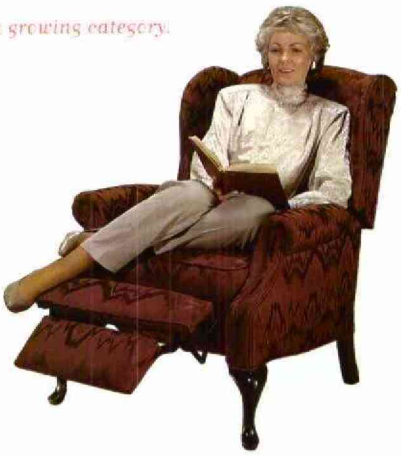
Action's motion furniture appeals to almost every taste, with more than 30 styles — from contemporary and transitional to country and traditional — and a broad array of coverings in fabric and leather.

Currently celebrating its 25th anniversary, Action is the second-leading manufacturer of recliners in the U.S. Its success is built on constant innovation, such as the 1994 introductions of hidden tray tables and a new massage system by Relaxor®.

Action furniture by Lane continues to be a leader

Consumers can have Action's motion furniture their way, with sofas, sectionals and love seats available in many configurations.

For the consumer wanting a chair that combines a more traditional design with the comfort advantage of a recliner, Action offers several wing chairs in a variety of fashionable fabrics — strong offerings in a growing category.



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Action drew on its expertise in making comfortable motion furniture and its reputation for innovation to develop a completely new approach to a sleep sofa mechanism. This device is covered by a series of patents and provides a product that offers truly unique features.

Action's sleep sofa strategy was simple: create a product that brings a new dimension — comfort — to a category previously known only for convenience and utility, and offer it at competitive price points. The result is ComfortMax®, a sleep sofa that does it all — sits soft and sleeps firm and even.

in the attractive and fast-growing market for motion furniture.

Action supports its entire product line with national advertising in publications such as Good Housekeeping, Reader's Digest, Family Circle and Better Homes and Gardens. National TV advertising is slated for 1995.

Action's new sleep sofas, which entered full distribution in October 1994, are now available in 22 styles. The initial consumer response to this innovative product has been strong.

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Financial Review

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Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations

INTERCO INCORPORATED (the "Company") is a major manufacturer of residential furniture. The Company has two primary operating subsidiaries, Broyhill Furniture Industries, Inc. and The Lane Company, Incorporated.

On November 17, 1994, the Company simultaneously refinanced the majority of its outstanding indebtedness and distributed to holders of its common stock the common stock of The Florsheim Shoe Company and the common stock of Converse Inc. (which, in aggregate, represented the Company's footwear segment). Upon completion of this restructuring, the Company retained no ownership interest or management control of the footwear businesses. Accordingly, the financial results of the footwear businesses have been reflected as discontinued operations for all periods presented, and the Company's financial results of prior years have been restated.

Effective December 31, 1992, the Company changed its fiscal year end to December 31. For purposes of this discussion, calendar 1994 refers to the 12 month period ended December 31, 1994, calendar 1993 refers to the 12 month period ended December 31, 1993, and calendar 1992 refers to the two five month periods ended December 31, 1992 and August 2, 1992.

On January 24, 1991, INTERCO INCORPORATED and its domestic subsidiaries filed petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Missouri (the "Court"). The Company emerged from Chapter 11 effective with the beginning of business on August 3, 1992. In general, the Plan of Reorganization (the "Plan") provided for resolution of all claims against the Company as of January 24, 1991, the Chapter 11 filing date, as well as resolution of certain legal disputes, in exchange for cash, new indebtedness and/or new common equity securities. The Plan provided for no distributions to the holders of the Company's Series D Preferred Stock, Series E Preferred Stock or common stock, and all outstanding shares of those equity securities were cancelled as of the effective date of the Plan.

As of August 2, 1992, in accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code", the Company was required to adopt "fresh-start" reporting and reflect the effects of such adoption in the financial statements as of August 2, 1992. Accordingly, a vertical black line is shown to separate post-emergence operations from those prior to August 3, 1992 in the consolidated financial statements since they have not been prepared on a comparable basis.

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Selected financial information for the last three years is presented below:

(In millions except per share data)			CALENDAR 1992	
	CALENDAR 1994 YEAR ENDED DECEMBER 31, 1994	CALENDAR 1993 YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992
Net sales	$1,072.7	$980.5	$394.9	$ 356.7
Gross profit	298.7	275.3	108.9	96.8
Selling, general and administrative expenses	213.6	201.2	77.0	76.4
Earnings from operations	85.1	74.1	31.9	20.4
Interest expense	37.9	38.6	16.4	29.7
Other income, net	1.7	1.8	2.5	0.4
Reorganization items	—	—	—	256.7
Income tax expense (benefit)	20.9	15.9	6.8	(1.2)
Extraordinary item — gain on extinguishment of debt	—	—	—	1,075.5
Cumulative effect of accounting changes	—	—	—	(1.7)
Net earnings per common share:				
Continuing operations	$ 0.54	$ 0.41	$ 0.23	$ —
Total	$ 0.74	$ 0.88	$ 0.43	$ —

Net Sales

Sales for calendar 1994 were $1.07 billion, an increase of 9.4% over calendar 1993 which had sales of $0.98 billion. Calendar 1993 sales represented an increase of 10.3% over the comparable (12 month) period in 1992. For calendar 1992 (ten month period), sales increased 10.2% over the same period in the prior year. The sales performance for all periods reflects an improving U.S. economy, favorable industry conditions and product offerings and marketing programs that were well received by customers.

Gross Profit

Gross profit for calendar 1994 was $298.7 million, compared to $275.3 million for calendar 1993, an increase of 8.5%. The increase in gross profit resulted from an increase in sales, partially offset by a reduction in gross profit margin. The reduction in gross profit margin, from 28.1% in calendar 1993 to 27.8% in calendar 1994, was primarily a result of start-up costs at a new $10 million motion upholstery manufacturing facility, the testing of an $8 million state-of-the-art finishing facility and the impact of an explosion and fire that destroyed a particleboard plant in November 1994, partially offset by favorable factory utilization rates.

Gross profit for calendar 1993 increased 13.4% over the comparable (12 month) period in 1992. The increase resulted from increases in sales and gross profit margin. The increase in gross profit margin, to 28.1% in calendar 1993 from 27.3% for the comparable (12 month) period in 1992, was a result of favorable factory utilization and sales of higher margin products resulting from internal profit improvement programs, partially offset by increased depreciation expense related to fair value adjustments recorded at August 2, 1992.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $213.6 million in calendar 1994 from $201.2 million in calendar 1993, an increase of 6.2%. As a percent of net sales, selling, general and administrative expenses decreased to 19.9% in calendar 1994 from 20.5% in calendar 1993. The reduction in selling, general and administrative expenses as a percent of net sales is attributable to the Company's continuing emphasis on control and reduction of operating expenses, as well as a nonrecurring $2.6 million charge included in calendar 1993 related to the Company's 1992 reorganization.

Selling, general and administrative expenses for calendar 1993 increased 10.6% over the comparable (12 month) period in 1992, and, as a percent of net sales, remained unchanged at 20.5%. Selling, general and administrative expenses increased due to sales growth and additional depreciation and amortization related to fair value adjustments recorded at August 2, 1992, partially offset by the Company's ongoing efforts to manage expenses relative to revenue growth.

Interest Expense

Interest expense for calendar 1994 totaled $37.9 million and reflects approximately one and one-half months of interest expense on the Company's new debt structure and approximately 10 and one-half months of interest expense on the refinanced long-term debt.

Interest expense for calendar 1993 totaled $38.6 million. As of August 3, 1992, the Company, in connection with its emergence from Chapter 11 and pursuant to the Plan, issued long-term debt (along with cash, common stock and warrants to purchase common stock) to settle pre-petition liabilities. As a result, interest expense for calendar 1993 was based on the Company's post-emergence debt structure and, therefore, is not comparable to the same periods of the prior year.

Interest expense for the five months ended December 31, 1992, which totaled $16.4 million, was also based on the Company's post-emergence debt structure whereas interest expense for the five months ended August 2, 1992, which totaled $29.7 million, was based on the Company's pre-emergence debt structure.

Other Income, Net

Other income, net for calendar 1994, 1993 and 1992 (ten months) totaled $1.7 million, $1.8 million and $2.9 million, respectively. For calendar 1994, other income, net consisted of interest income on short-term investments of $0.8 million and other miscellaneous income and (expense) items totaling $0.9 million.

Reorganization Items

Reorganization items consist of: adjustments to record assets and liabilities at fair value in connection with the Company's implementation of fresh-start reporting; and income, expenses and other costs directly related to the reorganization of the Company from the Chapter 11 filing date to its emergence from bankruptcy effective August 3, 1992. Additional information is presented in Note 4 of the Notes to Consolidated Financial Statements.

Income Tax Expense (Benefit)

For calendar 1994, the Company provided for income taxes totaling $20.9 million on earnings before income tax expense totaling $48.8 million, producing an effective tax rate of 42.8%, compared to an effective tax rate for calendar 1993 of 42.7%. The effective tax rates for both years were adversely impacted by certain nondeductible expenses incurred (amortization of excess reorganization value) and provisions for state and local taxes, partially offset by certain deductible expenses provided for in prior years.

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The effective tax rate for calendar 1992 was adversely impacted by certain nondeductible expenses incurred, including a substantial portion of the expenses relating to the reorganization items, and provisions for state and local taxes.

Extraordinary Item — Gain on Extinguishment of Debt

Pursuant to the Plan, on the effective date (August 3, 1992) the Company distributed cash, debt securities, common stock and warrants to purchase common stock in settlement of its pre-petition liabilities. The book value of cash and securities distributed was approximately $1.1 billion less than the pre-petition liabilities, and the resultant gain was recorded as an extraordinary item.

Cumulative Effect of Accounting Changes

In connection with the adoption of fresh-start reporting, the Company was required to adopt SFAS No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions", as of August 2, 1992. The Company recognized the full amount of the initial liability upon adoption of SFAS No. 106. The cumulative effect of the change on retained earnings prior to the adoption of fresh-start reporting at August 2, 1992 was a charge of $1.7 million, net of income taxes of $0.9 million. In addition, the Company was required to adopt SFAS No. 109, "Accounting for Income Taxes", as of August 2, 1992. The adoption of SFAS No. 109 had no impact on calendar 1992 continuing operations.

Net Earnings Per Common Share

Net earnings per common share from continuing operations on both a primary and fully diluted basis were $0.54 and $0.41 for calendar 1994 and 1993, respectively. Pursuant to the Plan, the Company cancelled all outstanding equity securities effective with the beginning of business on August 3, 1992 and issued new common stock. Accordingly, net earnings per common share for periods prior to August 3, 1992 are not comparable.

Weighted average shares used in the calculation of primary and fully diluted net earnings per common share for calendar 1994 were 51,495,000 and 51,506,000, respectively.

Financial Condition

Working Capital

Cash and cash equivalents at December 31, 1994 totaled $32.1 million, compared to $34.8 million at December 31, 1993. For calendar 1994, net cash used by operating activities (including net cash used by discontinued operations) totaled $6.1 million. Net cash used by investing activities totaled $15.5 million, including $21.1 million of capital expenditures incurred to add, upgrade or replace property, plant and equipment. Net cash provided by financing activities during calendar 1994 totaled $18.9 million, the majority of which pertained to increases in long-term debt as a result of the Company's refinancing and distribution of discontinued operations to the Company's shareholders.

Working capital was $307.0 million at December 31, 1994, compared to $271.6 million (excluding net current assets of discontinued operations) at December 31, 1993. The current ratio was 4.1 to 1 at December 31, 1994 and December 31, 1993. The increase in working capital between years is a result of the Company's growth as demonstrated by the improved sales and earnings performance described previously.

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Financing Arrangements

At December 31, 1994, long-term debt, including current maturities, totaled $426.3 million, compared to $408.0 million (excluding long-term debt allocated to discontinued operations) at December 31, 1993. The increase in long-term debt, totaling $18.3 million, was primarily a result of fees paid by the Company to complete the shareholder distribution and debt refinancing noted earlier. The Company's debt-to-capitalization ratio was 60.8% at December 31, 1994, compared to 54.7% at December 31, 1993. However, excluding the net equity of discontinued operations (which was subsequently distributed to the Company's shareholders), the debt-to-capitalization ratio at December 31, 1993 would have been 60.8%, the same as reported at December 31, 1994.

To meet short-term working capital and other financial requirements, the Company maintains a $75 million revolving credit facility as part of its Secured Credit Agreement with a group of banks. The revolving credit facility allows for both issuance of letters of credit and cash borrowings. Letter of credit outstandings are limited to no more than $35 million for the first year of the facility, with $5 million annual increases up to a maximum limitation of $50 million. Cash borrowings are limited only by the facility's maximum availability less letters of credit outstanding. See Note 8 of the Notes to Consolidated Financial Statements for additional information. At December 31, 1994, there were no cash borrowings outstanding under the revolving credit facility; however, there were $21.7 million in letters of credit outstanding.

In addition to the revolving credit facility, the Company also had $20 million of excess availability under its Receivables Securitization Facility as of December 31, 1994.

The Company believes its revolving credit facility, together with cash generated from operations, will be adequate to meet liquidity requirements for the foreseeable future.

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Consolidated Balance Sheet

(Dollars in thousands)	DECEMBER 31, 1994	DECEMBER 31, 1993
Assets		
Current assets:		
Cash and cash equivalents	$ 32,145	$ 34,809
Receivables, less allowances of $5,062 ($4,060 at December 31, 1993) (Note 9)	202,270	174,291
Inventories (Note 7)	155,031	134,478
Prepaid expenses and other current assets	15,122	14,989
Net current assets of discontinued operations (Note 3)	—	262,327
Total current assets	404,568	620,894
Property, plant and equipment:		
Land	11,933	11,933
Buildings and improvements	111,076	106,623
Machinery and equipment	115,407	106,354
	238,416	224,910
Less accumulated depreciation	57,023	33,329
Net property, plant and equipment	181,393	191,581
Reorganization value in excess of amounts allocable to identifiable assets, net (Note 2)	128,414	135,716
Trademarks and trade names, net (Note 2)	147,353	151,274
Other assets	30,150	21,025
	$891,878	$1,120,490
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities of long-term debt (Note 9)	$ 16,574	$ 4,739
Accounts payable	37,721	32,426
Accrued employee compensation	19,771	13,101
Accrued interest expense	1,652	3,307
Other accrued expenses	28,015	22,537
Income taxes	(6,152)	10,869
Total current liabilities	97,581	86,979
Long-term debt, less current maturities (Note 9)	409,679	403,255
Net noncurrent liabilities of discontinued operations (Note 3)	—	187,258
Other long-term liabilities	109,224	104,441
Shareholders' Equity:		
Preferred stock, authorized 10,000,000 shares, no par value — issued, none	—	—
Common stock, authorized 100,000,000 shares, $1.00 stated value — issued 50,076,515 and 50,004,282 shares at December 31, 1994 and 1993 (Note 10)	50,076	50,004
Paid-in capital	220,788	226,391
Retained earnings	4,530	62,162
Total shareholders' equity	275,394	338,557
	$891,878	$1,120,490

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Operations

(Dollars in thousands except per share data)	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992
Net sales	$1,072,696	$980,532	$394,873	$ 356,705
Costs and expenses:				
Cost of operations	752,528	685,749	278,711	253,528
Selling, general and administrative expenses	199,333	186,205	70,896	74,715
Depreciation and amortization (includes $16,900, $16,463, $6,695 and $0 related to fair value adjustments)	35,776	34,455	13,370	8,104
Earnings from operations	85,059	74,123	31,896	20,358
Interest expense	37,886	38,621	16,358	29,689
Other income, net	1,668	1,764	2,507	383
Earnings (loss) before reorganization items, income tax expense (benefit), discontinued operations, extraordinary item and cumulative effect of a change in accounting principle	48,841	37,266	18,045	(8,948)
Reorganization items (Note 4)	—	—	—	256,664
Earnings before income tax expense (benefit), discontinued operations, extraordinary item and cumulative effect of a change in accounting principle	48,841	37,266	18,045	247,716
Income tax expense (benefit) (Note 11)	20,908	15,924	6,807	(1,206)
Net earnings before discontinued operations, extraordinary item and cumulative effect of a change in accounting principle	27,933	21,342	11,238	248,922
Discontinued operations (Note 3):				
Earnings (loss) from operations, net of taxes	25,443	24,026	10,088	(112,522)
Loss on distribution, net of taxes	(15,104)	—	—	—
Cumulative effect of accounting change	—	—	—	(23,825)
Net earnings before extraordinary item and cumulative effect of a change in accounting principle	38,272	45,368	21,326	112,575
Extraordinary item — gain on extinguishment of debt (Note 5)	—	—	—	1,075,466
Cumulative effect on prior years of a change in accounting for postretirement benefits other than pensions and income taxes (Note 6)	—	—	—	(1,719)
Net earnings	$ 38,272	$ 45,368	$ 21,326	$1,186,322
Net earnings per common share — primary and fully diluted (Note 2):				
Net earnings before discontinued operations, extraordinary item and cumulative effect of a change in accounting principle	$ 0.54	$ 0.41	$ 0.23	$ 6.42
Discontinued operations	0.20	0.47	0.20	(3.52)
Extraordinary item — gain on extinguishment of debt	—	—	—	27.72
Cumulative effect on prior years of a change in accounting for postretirement benefits other than pensions and income taxes	—	—	—	(0.04)
Net earnings per common share	$ 0.74	$ 0.88	$ 0.43	$ 30.58

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Cash Flows

(Dollars in thousands)	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992
Cash Flows from Operating Activities:				
Net earnings	$ 38,272	$ 45,368	$ 21,326	$ 1,186,322
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:				
Net adjustment in accounts for fair value	—	—	—	(263,768)
Gain on extinguishment of debt	—	—	—	(1,075,466)
Net (earnings) loss from discontinued operations	(10,339)	(24,026)	(10,088)	136,347
Cumulative effect of a change in accounting for postretirement benefits other than pensions and income taxes	—	—	—	1,719
Depreciation of property, plant and equipment	25,675	24,304	9,140	7,793
Amortization of intangible assets	10,101	10,151	4,230	311
Noncash interest and other expense	196	2,097	188	866
(Increase) decrease in receivables	(27,979)	(3,237)	(16,400)	3,234
(Increase) decrease in income tax refund receivable	—	—	6,327	(1,317)
(Increase) decrease in inventories	(20,553)	(11,072)	6,742	(2,777)
(Increase) decrease in prepaid expenses and other assets	(8,807)	(714)	3,553	(1,805)
Increase (decrease) in accounts payable, accrued interest expense and other accrued expenses	15,788	(3,866)	(26,158)	41,343
Increase (decrease) in income taxes	(17,021)	3,938	(2,268)	(375)
Increase (decrease) in net deferred tax liabilities	7,904	969	4,348	(1,381)
Increase (decrease) in other long-term liabilities	(2,676)	(886)	3,971	2,934
Net cash provided by continuing operations	10,561	43,026	4,911	33,980
Net cash provided (used) by discontinued operations	(16,695)	(11,993)	6,773	(43,818)
Net cash provided (used) by operating activities	(6,134)	31,033	11,684	(9,838)
Cash Flows from Investing Activities:				
Proceeds from the disposal of assets	5,621	358	173	1,242
Additions to property, plant and equipment	(21,108)	(30,197)	(8,850)	(7,041)
Net cash used by investing activities	(15,487)	(29,839)	(8,677)	(5,799)
Cash Flows from Financing Activities:				
Additions to long-term debt	423,000	—	—	—
Payments of long-term debt	(404,741)	(20,940)	(19,144)	—
Proceeds from the issuance of common stock	698	42	—	—
Net cash provided (used) by financing activities	18,957	(20,898)	(19,144)	—
Cash Flows from Reorganization Activities:				
Payments of liabilities subject to compromise	—	—	—	(241,287)
Payments of deferred financing fees and expenses	—	—	—	(1,736)
Proceeds from cash held in trust	—	—	—	27,351
Net cash used by reorganization activities	—	—	—	(215,672)
Net decrease in cash and cash equivalents	(2,664)	(19,704)	(16,137)	(231,309)
Cash and cash equivalents at beginning of period	34,809	54,513	70,650	301,959
Cash and cash equivalents at end of period	$ 32,145	$ 34,809	$ 54,513	$ 70,650
Supplemental Disclosure:				
Cash payments (refunds) for income taxes, net	$ 37,127	$ 11,115	$ (1,817)	$ 910
Cash payments for interest, exclusive of reorganization activities	$ 39,345	$ 38,454	$ 29,474	$ 194

See accompanying notes to consolidated financial statements.

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Consolidated Statement of Shareholders' Equity

(Dollars in thousands)	PREFERRED STOCK SERIES D	PREFERRED STOCK SERIES E	COMMON STOCK	PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TOTAL
Balance February 29, 1992	$1,146	$ 3,321	$ 3,873	$199,084	$(1,393,946)	$(1,186,522)
Net earnings — Five months ended August 2, 1992					1,186,322	1,186,322
Conversion of preferred stock:						
Series D — 1,600 shares	(160)		15	145		—
Foreign currency translations — Five months ended August 2, 1992					200	200
Fresh-start adjustments:						
Cancellation of former equity and elimination of deficit	(986)	(3,321)	(3,888)	(199,229)	207,424	—
Issuance of new equity			50,000	225,400		275,400
Net earnings — Five months ended December 31, 1992					21,326	21,326
Foreign currency translations — Five months ended December 31, 1992					(3,612)	(3,612)
Balance December 31, 1992	—	—	50,000	225,400	17,714	293,114
Net earnings					45,368	45,368
Common stock activity:						
Stock option grants and exercises (Note 10)			4	988		992
Warrant exercises — 282 shares				3		3
Foreign currency translations					(920)	(920)
Balance December 31, 1993	—	—	50,004	226,391	62,162	338,557
Net earnings					38,272	38,272
Common stock activity:						
Stock option exercises (Note 10)			71	615		686
Warrant exercises — 983 shares			1	11		12
Foreign currency translations					2,659	2,659
Distribution of discontinued operations to shareholders				(6,229)	(98,563)	(104,792)
Balance December 31, 1994	$ —	$ —	$50,076	$220,788	$ 4,530	$ 275,394

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

(Dollars in thousands except per share data)

1. The Company

INTERCO INCORPORATED (the "Company") is a major manufacturer of residential furniture. The Company has two primary operating subsidiaries, Broyhill Furniture Industries, Inc. and The Lane Company, Incorporated.

Substantially all of the Company's sales are made to unaffiliated customers. The Company has a diversified customer base with no one customer accounting for 10% or more of consolidated sales and no particular concentration of credit risk in one economic section. Foreign operations and sales are not material.

On November 17, 1994, the Company simultaneously refinanced the majority of its outstanding indebtedness and distributed to holders of its common stock the common stock of The Florsheim Shoe Company and the common stock of Converse Inc. (which, in aggregate, represented the Company's footwear segment). Upon completion of this restructuring, the Company retained no ownership interest or management control of the footwear businesses. Accordingly, the financial results of the footwear businesses have been reflected as discontinued operations for all periods presented, and the Company's financial results of prior years have been restated.

2. Significant Accounting Policies

The significant accounting policies of the Company are set forth below.

Fresh-Start Reporting

On January 24, 1991, INTERCO INCORPORATED and its domestic subsidiaries filed petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Missouri (the "Court"). The Company emerged from Chapter 11 effective with the beginning of business on August 3, 1992. In general, the Plan of Reorganization (the "Plan") provided for resolution of all claims against the Company as of January 24, 1991, the Chapter 11 filing date, as well as resolution of certain legal disputes, in exchange for cash, new indebtedness and/or new common equity securities. The Plan provided for no distributions to the holders of the Company's Series D Preferred Stock, Series E Preferred Stock or common stock, and all outstanding shares of those equity securities were cancelled as of the effective date of the Plan.

As of August 2, 1992, in accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" ("SOP 90-7"), the Company was required to adopt "fresh-start" reporting and reflect the effects of such adoption in the financial statements as of August 2, 1992. The ongoing impact of the adoption of fresh-start reporting is reflected in the financial statements for the years ended December 31, 1994 and 1993 and five months ended December 31, 1992.

In adopting fresh-start reporting, the Company, with the assistance of its financial advisors, was required to determine its reorganization value, which represents the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the Company immediately after its emergence from Chapter 11 status. The reorganization value of the Company was determined by consideration of several factors, including: the discounted residual value of the Company; market share, position and competition of each operating company; projected sales, profitability growth and working capital requirements; and general economic considerations. Various valuation methods were relied

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upon, including: discounted cash flow, price/earnings ratios, comparable merger and acquisition activities and other applicable ratios and industry indices.

The adjustments to reflect the consummation of the Plan (including the gain on extinguishment of debt relating to pre-petition liabilities) and the adjustment to record assets and liabilities at their fair values (including the establishment of reorganization value in excess of amounts allocable to identifiable assets) have been reflected in the accompanying consolidated financial statements. Accordingly, a vertical black line is shown in the consolidated financial statements to separate post-emergence operations from those prior to August 3, 1992 since they have not been prepared on a comparable basis.

Fiscal Year

Effective December 31, 1992, the Company changed its fiscal year end to December 31. Prior to December 31, 1992, the Company's fiscal year ended on the last Saturday in February.

For purposes of this annual report, calendar 1994 refers to the 12 month period ended December 31, 1994, calendar 1993 refers to the 12 month period ended December 31, 1993, and calendar 1992 refers to the two five month periods ended December 31, 1992 and August 2, 1992.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries, the majority of which are wholly owned. All material intercompany transactions are eliminated in consolidation. The operating companies included in the consolidated financial statements report their results of operations as of the Saturday closest to December 31. Accordingly, the results of operations will periodically include a 53 week fiscal year. Calendar 1994 and calendar 1993 represent 52 week fiscal years. As a result of adopting fresh-start reporting, calendar 1992 included a 22 week period ended August 2, 1992 and a 22 week period ended January 2, 1993 for the operating companies.

Cash and Cash Equivalents

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. Short-term investments are recorded at amortized cost, which approximates market.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost when acquired. Expenditures for improvements are capitalized while normal repairs and maintenance are expensed as incurred. When properties are disposed of, the related cost and accumulated depreciation or amortization are removed from the accounts, and gains or losses on the dispositions are reflected in results of operations. For financial reporting purposes, the Company utilizes both accelerated and straight-line methods of computing depreciation and amortization. Such expense is computed based on the estimated useful lives of the respective assets, which generally range from 3 to 45 years for buildings and improvements and from 3 to 12 years for machinery and equipment. In connection with the adoption of fresh-start reporting, property, plant and equipment were adjusted to fair value resulting in an increase of approximately $77,500 as of August 2, 1992.

Reorganization Value in Excess of Amounts Allocable to Identifiable Assets

As a result of adopting fresh-start reporting, the Company recorded reorganization value in excess of amounts allocable to identifiable assets of approximately $146,000. This intangible asset is being amortized on a straight-line basis over a 20 year period.

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Trademarks and Trade Names

In connection with the adoption of fresh-start reporting, the Company recorded approximately $156,800 in fair value of trademarks and trade names based upon an independent appraisal. Such trademarks and trade names are being amortized on a straight-line basis over a 40 year period.

Reorganization Items

Reorganization items consist of income, expenses and other costs directly related to the reorganization of the Company during the Chapter 11 period.

Income Tax Expense (Benefit)

In connection with the adoption of fresh-start reporting, the Company was required to adopt Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109") as of August 2, 1992. Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Extraordinary Item

The extraordinary item for the five months ended August 2, 1992 represents the gain, net of income taxes, resulting from the discharge of pre-petition liabilities in accordance with the Plan.

Cumulative Effect on Prior Years of a Change in Accounting for Postretirement Benefits other than Pensions and Income Taxes

In connection with the adoption of fresh-start reporting, the Company was required to adopt Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions" ("SFAS No. 106") as of August 2, 1992. SFAS No. 106 requires the cost of these benefits be recognized in the financial statements over an employee's service period with the Company. Prior to August 2, 1992, the Company recognized these benefits on a cash payment basis. The adoption of SFAS No. 106 and SFAS No. 109 (described above under Income Tax Expense (Benefit)) represents a change in accounting principle.

Net Earnings Per Common Share

Net earnings per common share is based on the weighted average number of shares of common stock and common stock equivalents outstanding during the year. Subsequent to the Company's emergence from Chapter 11, net earnings per common share is calculated based on the common stock and common stock equivalents issued in accordance with the Plan. The stock options and warrants issued (Note 10) are considered common stock equivalents. Weighted average shares used in the calculation of primary and fully diluted net earnings per common share for calendar 1994 were 51,495,000 and 51,506,000, respectively.

Prior to the Company's emergence from Chapter 11, common stock equivalents and the conversion of Series D Preferred Stock were not included in computations of net earnings per common share as they were not dilutive. As a result of the Chapter 11 filing, the Company stopped providing for preferred dividend requirements.

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Reclassification

Certain calendar 1993 and calendar 1992 amounts have been reclassified to conform to the calendar 1994 presentation.

3. *Discontinued Operations*

On November 17, 1994, the Company distributed the common stock of each of The Florsheim Shoe Company and Converse Inc. (which, in aggregate, represented the Company's footwear segment) to its shareholders. In accordance with Accounting Principles Board Opinion No. 30, the financial results for the footwear segment are reported as "Discontinued Operations" and the Company's financial results of prior periods have been restated. Condensed results of the discontinued operations were as follows:

	ELEVEN MONTHS ENDED NOVEMBER 17, 1994	YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992
Net sales	$663,637	$676,282	$267,401	$ 246,868
Earnings (loss) before reorganization items, income tax expense and cumulative effect of a change in accounting principle	$ 40,047	$ 38,706	$ 17,831	$ (1,384)
Reorganization items	—	—	—	(110,976)
Income tax expense	14,604	14,680	7,743	162
Net earnings (loss)	$ 25,443	$ 24,026	$ 10,088	$(112,522)
Loss on distribution, net of taxes of $4,564	$ (15,104)	$ —	$ —	$ —
Cumulative effect of accounting change	$ —	$ —	$ —	$ (23,825)

The loss on distribution reflects expenses related to: the distribution of the common stock of The Florsheim Shoe Company and Converse Inc. to the Company's shareholders, including certain expenses associated with establishing the capital structure of each company; compensation expense accrued as a result of adjustments required to be made to exercisable employee stock options; interest expense on certain long-term debt defeased, net of estimated interest income to be received from the trustees; and applicable income taxes.

Prior to the distribution of the common stock of The Florsheim Shoe Company to its shareholders, the Company had guaranteed certain of Florsheim's retail store operating leases. At December 31, 1994, the Company had guarantees outstanding on 148 retail store leases with a contingent liability totaling approximately $49,400. The Florsheim Shoe Company has agreed to indemnify the Company against any losses incurred as a result of the lease guarantees.

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4. *Reorganization Items*

Reorganization items included in the consolidated statement of operations are summarized as follows:

	FIVE MONTHS ENDED AUGUST 2, 1992
Adjustments to fair value	$263,768
Fees for services rendered	(6,996)
Other reorganization costs and expenses	(2,179)
Debtor-in-possession financing fee amortization and expenses	(263)
Interest earned on accumulated cash resulting from Chapter 11 proceedings	2,334
	$256,664

Adjustments to fair value reflect the net change to state assets and liabilities at fair value in accordance with the provisions of SOP 90-7.

5. *Extraordinary Item — Gain on Extinguishment of Debt*

The Plan resulted in the discharge of approximately $2,200,000 of pre-petition liabilities against the Company through the distribution to creditors of $293,100 in cash, $642,300 in various debt instruments, 50.0 million shares of common stock and 5.0 million warrants to purchase common stock. The book value of cash and securities distributed was approximately $1,100,000 less than the pre-petition liabilities, and the resultant gain was recorded as an extraordinary item for the five months ended August 2, 1992.

6. *Cumulative Effect of Accounting Changes*

In connection with the adoption of fresh-start reporting, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions", as of August 2, 1992. The cumulative effect of the change on retained earnings, prior to the adoption of fresh-start reporting at August 2, 1992, was approximately $1,700, net of approximately $900 in income taxes. The Company also adopted SFAS No. 109, "Accounting for Income Taxes", as of August 2, 1992. The adoption of SFAS No. 109 had no impact on calendar 1992 continuing operations.

7. *Inventories*

Inventories are summarized as follows:

	DECEMBER 31, 1994	DECEMBER 31, 1993
Finished products	$ 66,445	$ 55,453
Work-in-process	36,365	32,460
Raw materials	52,221	46,565
	$155,031	$134,478

8. *Short-Term Financing*

In conjunction with the November 17, 1994 distribution of the common stock of The Florsheim Shoe Company and Converse Inc. to the Company's shareholders, the Company refinanced the majority of its indebtedness. As part of this refinancing, the Company entered into a $360,000 Secured Credit Agreement which includes a $75,000 revolving credit facility.

The revolving credit facility allows for both issuance of letters of credit and cash borrowings. Letter of credit outstandings are limited to no more than $35,000, with the limitation increasing by $5,000 annually to a maximum of $50,000. Cash borrowings are limited only by the facility's maximum availability less letters of credit outstanding.

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As part of the Secured Credit Agreement, the revolving credit facility is secured by a first priority lien on and security interest in substantially all of the Company's assets except for trade receivables. See Note 9 — Long-Term Debt — for further information regarding the Secured Credit Agreement.

The outstanding cash borrowings under the revolving credit facility bear interest at a base (prime) rate plus 0.75% or at an adjusted Eurodollar rate plus 1.75%, depending upon which type of loan the Company executes. The "spread" or margin over the base rate and Eurodollar rate is subject to a "step down" or reduction when the Company achieves certain financial performance ratios. At December 31, 1994, there were no cash borrowings outstanding under the revolving credit facility.

Under the letter of credit facility, a fee of 1.75% per annum (subject to the same "step down" as noted earlier) is assessed for the account of the lenders ratably. A further fee of 0.25% is assessed on stand-by letters of credit representing a facing fee. A customary administrative charge for processing letters of credit is also payable to the relevant issuing bank. Letter of credit fees are payable quarterly in arrears. At December 31, 1994, there were $21,720 in letters of credit outstanding under the revolving credit facility.

9. *Long-Term Debt*

Long-term debt consisted of the following:

	DECEMBER 31, 1994	DECEMBER 31, 1993
Secured credit agreement	$285,000	$ —
Receivables securitization facility	130,000	—
Industrial revenue bonds	8,000	12,768
Federal tax obligation	3,253	3,968
10.0% secured notes due 2001	—	104,734
9.0% secured notes due 2004	—	149,274
8.5% secured notes due 1997	—	9,334
Secured term loan	—	289,881
ILGWU fund note	—	16,150
	426,253	586,109
Less amount allocated to discontinued operations	—	(178,115)
Less current maturities	(16,574)	(4,739)
	$409,679	$403,255

On November 17, 1994, the Company refinanced the majority of its long-term debt by entering into a $360,000 Secured Credit Agreement ($285,000 term loan facility and $75,000 revolving credit facility) with a group of banks and a $150,000 Receivables Securitization Facility. Proceeds from these loan facilities were used to repay or defease (in the case of the 10.0% Secured Notes) the majority of the Company's outstanding indebtedness. In addition, a certain portion of the Company's long-term debt was allocated to discontinued operations which was repaid in conjunction with the refinancing of those operations at the time of their distribution to the Company's shareholders.

The following discussion summarizes certain provisions of the long-term debt.

Secured Credit Agreement

The common stock of the Company's principal subsidiaries, substantially all of the Company's cash, working capital (other than trade receivables) and property, plant and equipment, have been pledged or mortgaged as security for the Secured Credit Agreement. The Secured Credit Agreement contains a number of restrictive covenants and events of default, including

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covenants limiting capital expenditures and incurrence of debt, and requires the Company to achieve certain financial ratios, some of which become more restrictive over time.

Borrowings under the $285,000 term loan facility bear interest at a base (prime) rate plus 0.75% or at an adjusted Eurodollar rate plus 1.75%, depending upon which type of loan the Company executes. Similar to the revolving credit facility, the "spread" or margin over the base rate and Eurodollar rate is subject to a "step down" or reduction when the Company achieves certain financial performance ratios.

The Secured Credit Agreement (term loan facility and revolving credit facility) matures on November 17, 2001. Interest is payable based upon the type (base rate or Eurodollar rate) of loan the Company executes; however, interest is payable quarterly at a minimum. At December 31, 1994, all loans outstanding under the Secured Credit Agreement were based on the Eurodollar rate.

Mandatory principal payments of the term loan facility are due on the last business day of March and September. Annual principal payments are as follows:

Year	Amount	Year	Amount
1995	$15,000	1999	$50,000
1996	20,000	2000	65,000
1997	30,000	2001	65,000
1998	40,000		

In addition to mandatory principal payments, the term loan facility requires principal payments from excess cash flow (as defined in the Secured Credit Agreement), and a portion of the net proceeds realized from (i) the sale, conveyance, or other disposition of collateral securing the debt or (ii) the sale by the Company for its own account of additional subordinated debt and/or shares of its preferred and/or common stock.

Receivables Securitization Facility

The Receivables Securitization Facility is an obligation of the Company which matures on November 15, 1999 and is secured by substantially all of the Company's trade receivables. The facility operates through use of a special purpose subsidiary (Interco Receivables Corp.) which "buys" trade receivables from the operating companies and "sells" interests in same to a third party financial institution, which uses the interests as collateral for borrowings in the commercial paper market to fund the purchases. The Company has accounted for this transaction as long-term debt.

The Company pays a commercial paper index rate on all funds received (outstanding) on the facility. In addition, a program fee of 0.65% per annum on the entire $150,000 facility is paid on a monthly basis. The $130,000 balance outstanding at December 31, 1994 was unchanged from the original amount drawn under the facility. The Company may increase or decrease its use of the facility on a monthly basis subject to the availability of sufficient trade receivables and the facility's maximum amount ($150,000). As of December 31, 1994, the Company had $20,000 in excess availability under the facility.

Industrial Revenue Bonds

On January 21, 1994, the Company entered into a secured obligation with the Mississippi Business Finance Corporation to finance the construction of a new furniture manufacturing facility in Tupelo, Mississippi. The industrial revenue bonds totaled $8,000 and bear interest at 8.82% per annum. The bonds mature in annual installments of $800 beginning January 15, 1995 and are secured by the facility and equipment included therein. Because of special tax incentives granted by the State of Mississippi, the Company will receive certain state income tax credits based upon the interest and principal payments made on the bonds.

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Federal Tax Obligation

In settlement of certain Federal tax obligations, the Company entered into an unsecured obligation with the Internal Revenue Service which matures on August 3, 1998, and bears interest at 8.0%. Interest and principal are paid quarterly based upon a predetermined amortization schedule.

Other Information

Maturities of long-term debt are $16,574, $21,639, $31,709, $41,531 and $180,800 for calendar years 1995 through 1999, respectively.

10. Common Stock

The Company's restated certificate of incorporation includes authorization to issue up to 100.0 million shares of common stock with a $1.00 per share stated value. As of December 31, 1994, 50,076,515 shares of common stock were issued and outstanding. It is not presently anticipated that dividends will be paid on common stock in the foreseeable future and certain of the debt instruments to which the Company is a party restrict the payment of dividends.

Shares of common stock were reserved for the following purposes at December 31, 1994:

	NUMBER OF SHARES
Common stock options:	
Granted	2,643,000
Available for grant	710,000
Common stock warrants	8,397,190
	11,750,190

On May 5, 1993, shareholders approved the 1992 Stock Option Plan including an amendment thereto which increased the number of common shares reserved for issuance from 2.5 million shares to 3.5 million shares. Under the Company's 1992 Stock Option Plan, certain key employees may be granted nonqualified options, incentive options or combinations thereof. Nonqualified and incentive options may be granted to expire up to ten years after the date of grant. Options granted become exercisable at varying dates depending upon the achievement of certain performance targets and/or the passage of certain time periods.

Shareholders also approved an amendment to the 1992 Stock Option Plan authorizing grants of options to purchase common shares at less than fair market value on the date of grant. During calendar 1993, an option grant of 250 thousand common shares was made by the Company at less than market value resulting in a credit to paid-in capital and a charge to compensation expense of approximately $1.0 million.

Changes in options granted and outstanding are summarized as follows:

	YEAR ENDED DECEMBER 31, 1994		YEAR ENDED DECEMBER 31, 1993	
	SHARES	AVERAGE PRICE	SHARES	AVERAGE PRICE
Beginning of period	2,915,000	$ 7.39	2,500,000	$ 7.00
Granted	917,000	7.85	461,000	9.58
Exercised	(71,250)	7.00	(4,000)	7.00
Cancelled	(1,117,750)	7.82	(42,000)	7.92
End of period	2,643,000	$ 4.64	2,915,000	$ 7.39
Exercisable at end of period	954,750		586,750	

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As a result of the November 17, 1994 distribution of the common stock of The Florsheim Shoe Company and Converse Inc. to the Company's shareholders, options granted to the employees of those operating companies were cancelled. In addition, the exercise prices of the remaining options were adjusted to reflect the distribution in accordance with the antidilution provisions of the 1992 Stock Option Plan.

The Company issued, upon emergence from Chapter 11 status, approximately 5.0 million warrants to purchase common stock. Each warrant entitled the holder thereof to purchase one share of common stock at $12.00 per share; provided however, that in the event of certain distributions of assets, the purchase price and number of shares of common stock would be subject to adjustment in accordance with the antidilution provisions of the warrant agreement. The November 17, 1994 distribution to shareholders resulted in the number of warrants increasing by approximately 3.4 million and the exercise price decreasing to $7.13 per share. The warrants, which expire on August 3, 1999, were issued in two series; Series 1 warrants include a five year call protection, whereas Series 2 warrants do not include such a feature. All other terms and conditions of the two series of warrants are identical. The warrants trade on the over-the-counter market.

In accordance with the Plan, all shares of the Company's common stock outstanding prior to the Plan's effective date were cancelled, as were all option shares outstanding, shares available for grant, existing stock option plans and common share purchase rights.

11. *Income Taxes*

Income tax expense (benefit) was comprised of the following:

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992
Current:				
Federal	$10,095	$11,788	$1,443	$(1,463)
State and local	2,909	3,167	1,016	1,638
	13,004	14,955	2,459	175
Deferred	7,904	969	4,348	(1,381)
	$20,908	$15,924	$6,807	$(1,206)

The following table reconciles the differences between the Federal corporate statutory rate and the Company's effective income tax rate:

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992
Federal corporate statutory rate	35.0%	35.0%	34.0%	34.0%
State and local income taxes, net of Federal tax benefit	2.9	4.2	2.8	0.4
Reorganization items	—	—	—	(35.5)
Amortization of excess reorganization value	5.2	6.8	5.7	—
Other	(0.3)	(3.3)	(4.8)	0.6
Effective income tax rate	42.8%	42.7%	37.7%	(0.5)%

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The sources of the tax effects for temporary differences that give rise to the deferred tax assets and liabilities were as follows:

	DECEMBER 31, 1994	DECEMBER 31, 1993
Deferred tax assets:		
Expense accruals	$ 6,109	$ 4,973
Valuation reserves	3,027	3,089
Inventory costs capitalized	1,534	1,418
Interest expense	—	8,199
Employee pension plans	—	4,607
Other	2,404	1,684
Total gross deferred tax assets	13,074	23,970
Valuation allowance	—	—
Total net deferred tax assets	13,074	23,970
Deferred tax liabilities:		
Fair value adjustments	(70,690)	(77,299)
Employee pension plans	(6,139)	—
Depreciation	(4,441)	(6,703)
Other	(7,575)	(7,835)
Total deferred tax liabilities	(88,845)	(91,837)
Net deferred tax liabilities	$(75,771)	$(67,867)

The net deferred tax liabilities are included in the consolidated balance sheet as follows:

	DECEMBER 31, 1994	DECEMBER 31, 1993
Prepaid expenses and other current assets	$ 12,089	$ 12,534
Other long-term liabilities	(87,860)	(80,401)
	$(75,771)	$(67,867)

The Federal income tax returns of the Company and its major subsidiaries have been examined by the Internal Revenue Service ("IRS") through February 23, 1991. For tax periods beginning January 1, 1982 and ending February 23, 1991, the Company settled claims by the IRS by entering into an unsecured obligation of approximately $4,800 (See Note 9).

12. *Employee Benefits*

The Company sponsors or contributes to retirement plans covering substantially all employees. The total cost of all plans for calendar 1994, calendar 1993 and calendar 1992 (ten months) was $6,303, $5,716 and $4,085, respectively.

Company-Sponsored Defined Benefit Plans

Annual cost for defined benefit plans is determined using the projected unit credit actuarial method. Prior service cost is amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

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It is the Company's practice to fund pension costs to the extent that such costs are tax deductible and in accordance with ERISA. The assets of the various plans include corporate equities, government securities, corporate debt securities and insurance contracts. The table below summarizes the funded status of the Company-sponsored defined benefit plans.

	DECEMBER 31, 1994	DECEMBER 31, 1993
Actuarial present value of benefit obligations:		
Vested benefit obligation	$179,006	$168,844
Accumulated benefit obligation	$182,903	$171,533
Projected benefit obligation	$202,148	$192,608
Plan assets at fair value	217,535	188,573
Projected benefit obligation less than (greater than) plan assets	15,387	(4,035)
Unrecognized net loss	3,886	928
Unrecognized prior service cost	(515)	7,599
Prepaid pension cost	$ 18,758	$ 4,492

Net periodic pension cost for calendar 1994, 1993 and 1992 includes the following components:

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992
Service cost-benefits earned during the period	$ 4,758	$ 4,575	$ 1,868	$ 1,888
Interest cost on the projected benefit obligation	13,682	12,818	5,419	5,311
Actual return on plan assets	(159)	(16,863)	(11,269)	(1,779)
Net amortization and deferral	(16,297)	1,377	5,007	(4,340)
Net periodic pension cost	$ 1,984	$ 1,907	$ 1,025	$ 1,080

Employees are covered primarily by noncontributory plans, funded by Company contributions to trust funds, which are held for the sole benefit of employees. Monthly retirement benefits are based upon service and pay with employees becoming vested upon completion of five years of service.

The expected long-term rate of return on plan assets was 8.0%-9.5% in calendar 1994, 1993 and 1992. Measurement of the projected benefit obligation was based upon a weighted average discount rate of 8.00%, 7.25% and 7.75% and a long-term rate of compensation increase of 4.5%, 4.5% and 5.0% for calendar 1994, 1993 and 1992, respectively.

Other Retirement Plans and Benefits

In addition to defined benefit plans, the Company makes contributions to a defined contribution plan and sponsors an employee savings plan. The cost of these plans is included in the total cost for all plans reflected above.

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13. Lease Commitments

Certain of the Company's real properties and equipment are operated under lease agreements expiring at various dates through the year 2005. Leases covering equipment generally require, in addition to stated minimums, contingent rentals based on usage. Generally, the leases provide for renewal for various periods at stipulated rates.

Rental expense under operating leases was as follows:

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1993	FIVE MONTHS ENDED DECEMBER 31, 1992	FIVE MONTHS ENDED AUGUST 2, 1992
Basic rentals	$11,553	$10,704	$3,727	$4,043
Contingent rentals	385	570	1,436	1,578
	11,938	11,274	5,163	5,621
Less: sublease rentals	54	132	219	256
	$11,884	$11,142	$4,944	$5,365

Future minimum lease payments under operating leases, reduced by minimum rentals from subleases of $830 at December 31, 1994, aggregate $32,226. Annual minimum payments under operating leases are $9,248, $7,697, $4,749, $3,595 and $2,712 for 1995 through 1999, respectively.

14. Fair Value of Financial Instruments

The Company considers the carrying amounts of cash and cash equivalents, receivables and accounts payable to approximate fair value because of the short maturity of these financial instruments.

The Secured Credit Agreement and Receivables Securitization Facility are also considered to be carried on the financial statements at their estimated fair values because they were entered into recently (November 17, 1994) and both accrue interest at rates which generally fluctuate with interest rate trends.

The Industrial Revenue Bonds and Federal Tax Obligation are considered special purpose financing as an incentive to acquire specific real estate and for settlement of certain claims. Accordingly, the Company believes the carrying amounts approximate fair value given the circumstances under which such financings were acquired.

15. Litigation

Notwithstanding the confirmation and effectiveness of the Plan, the Court continues to have jurisdiction, among other things, to resolve disputed pre-petition claims against the Company, to resolve matters related to the assumption, assumption and assignment, or rejection of executory contracts pursuant to the Plan, and to resolve other matters that may arise in connection with or relate to the Plan. Pursuant to the Plan, the Company, on the effective date, paid into a Disputed Claims Trust the face amount of certain claims still to be resolved. Since those unresolved claims were funded at their face amounts, the Company has no further financial exposure with respect to those claims.

The Company is or may become a defendant in a number of pending or threatened legal proceedings in the ordinary course of business. In the opinion of management, the ultimate liability, if any, of the Company from all such proceedings will not have a material adverse effect upon the consolidated financial position or results of operations of the Company and its subsidiaries.

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16. *Quarterly Financial Information (Unaudited)*

Following is a summary of unaudited quarterly information:

	FOURTH QUARTER	THIRD QUARTER	SECOND QUARTER	FIRST QUARTER
Year ended December 31, 1994:				
Net sales	$277,244	$ 254,496	$ 272,203	$ 268,753
Gross profit	76,937	71,697	75,894	74,184
Net earnings:				
Continuing operations	10,796	5,366	5,863	5,908
Discontinued operations	(11,952)	7,042	5,480	9,769
Total	$ (1,156)	$ 12,408	$ 11,343	$ 15,677
Net earnings per common share:				
Continuing operations	$ 0.21	$ 0.10	$ 0.12	$ 0.11
Total	$ (0.02)	$ 0.24	$ 0.22	$ 0.30
Common stock price range (High-Low)	$14 7/8-6 1/8	$15 3/4-13 3/4	$14 7/8-12 3/8	$15 3/4-13 1/8
Year ended December 31, 1993:				
Net sales	$251,771	$ 240,317	$ 242,191	$ 246,253
Gross profit	69,763	66,795	68,244	70,521
Net earnings:				
Continuing operations	6,069	4,060	4,912	6,301
Discontinued operations	6,806	5,134	3,989	8,097
Total	$ 12,875	$ 9,194	$ 8,901	$ 14,398
Net earnings per common share:				
Continuing operations	$ 0.11	$ 0.08	$ 0.10	$ 0.12
Total	$ 0.25	$ 0.18	$ 0.17	$ 0.28
Common stock price range (High-Low)	$15 3/8-13	$ 14 3/8-12	$15 3/4-12 3/8	$ 14 7/8-9 3/8

The Company has not paid cash dividends on its common stock during the two years ended December 31, 1994. The closing market price of the Company's common stock on December 31, 1994 was $6.75 per share.

The 1994 fourth quarter common stock price range reflects the impact of the November 17, 1994 distribution of the discontinued operations to the Company's shareholders.

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Independent Auditors' Report

The Board of Directors
and Shareholders
INTERCO INCORPORATED:

We have audited the accompanying consolidated balance sheets of INTERCO INCORPORATED and subsidiaries as of December 31, 1994 and December 31, 1993, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year ended December 31, 1994, year ended December 31, 1993, five months ended December 31, 1992, and five months ended August 2, 1992. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of INTERCO INCORPORATED and subsidiaries at December 31, 1994 and December 31, 1993, and the results of their operations and their cash flows for the year ended December 31, 1994, year ended December 31, 1993, five months ended December 31, 1992, and five months ended August 2, 1992 in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, effective August 2, 1992, INTERCO INCORPORATED was required to adopt "fresh-start" reporting principles in accordance with AICPA Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code." As a result, the financial statements for the period subsequent to the adoption of fresh-start reporting are presented on a different cost basis than that for prior periods and, therefore, are not comparable.

As discussed in Notes 2 and 6 to the consolidated financial statements, the company changed its method of accounting for postretirement benefits and income taxes in calendar year 1992.

KPMG Peat Marwick LLP

St. Louis, Missouri
January 31, 1995

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Five Year Consolidated Financial Review

(Dollars in thousands except per share data)	YEAR ENDED DEC. 31, 1994	YEAR ENDED DEC. 31 1993	FIVE MONTHS ENDED[1] DEC. 31, 1992	FIVE MONTHS ENDED[1] AUG. 2, 1992	FISCAL YEARS ENDED FEB. 29, 1992	FISCAL YEARS ENDED FEB. 23, 1991
Summary of Operations:						
Net sales	$1,072,696	$980,532	$394,873	$ 356,705	$ 819,359	$ 786,556
Gross profit	298,712	275,323	108,858	96,849	229,219	221,570
Interest expense	37,886	38,621	16,358	29,689	88,310	241,083
Earnings (loss) before income tax expense (benefit), discontinued operations, extraordinary item and cumulative effect of accounting change	48,841	37,266	18,045	247,716	(39,087)	(200,871)
Income tax expense (benefit)	20,908	15,924	6,807	(1,206)	(3,589)	(65,241)
Net earnings (loss) before discontinued operations, extraordinary item and cumulative effect of accounting change	27,933	21,342	11,238	248,922	(35,498)	(135,630)
Discontinued operations	10,339	24,026	10,088	(136,347)	(13,394)	(40,706)
Extraordinary item	—	—	—	1,075,466	—	—
Cumulative effect of accounting change	—	—	—	(1,719)	—	—
Net earnings (loss) applicable to common stock	$ 38,272	$ 45,368	$ 21,326	$1,186,322	$ (48,892)[2]	$ (272,097)
Per share of common stock — primary and fully diluted:						
Net earnings (loss) before discontinued operations, extraordinary item and cumulative effect of accounting change	$ 0.54	$ 0.41	$ 0.23	$ 6.42	$ (0.92)[2]	$ (5.98)
Discontinued operations	0.20	0.47	0.20	(3.52)	(0.34)	(1.05)
Extraordinary item	—	—	—	27.72	—	—
Cumulative effect of accounting change	—	—	—	(0.04)	—	—
Net earnings (loss) applicable to common stock	$ 0.74	$ 0.88	$ 0.43	$ 30.58	$ (1.26)[2]	$ (7.03)
Weighted average common and common equivalent shares outstanding — fully diluted (in thousands)	51,506	51,397	50,000	38,796	38,731	38,720
Other Information (continuing operations):						
Working capital	$ 306,987	$271,588	$261,967	$ 261,357	$ 426,852	$ 380,834
Property, plant and equipment, net	181,393	191,581	186,046	189,039[3]	114,239	112,325
Capital expenditures	21,108	30,197	8,850	7,041	20,099	14,255
Total assets	891,878	858,163	870,115	893,012	800,840	652,738
Long-term debt	409,679	403,255	407,898	443,165	—[4]	—[4]
Shareholders' equity (deficit)	$ 275,394	$338,557	$293,114	$ 275,400	$(1,186,522)	$(1,135,211)

[1] As discussed in Note 2 to the Consolidated Financial Statements, the Company changed its fiscal year to end on December 31. As also discussed in Note 2, the Company's adoption of fresh-start reporting required reporting calendar 1992 results in two 22 week periods.

[2] As discussed in Note 2 to the Consolidated Financial Statements, the Company stopped providing for preferred dividend requirements in fiscal 1992.

[3] In connection with the adoption of fresh-start reporting, property, plant and equipment was adjusted to fair value resulting in an increase of approximately $77,500 as of August 2, 1992.

[4] Long-term debt (including debt pertaining to discontinued operations) totaling $1,055,132 and $1,007,882 was reclassified to liabilities subject to compromise as of February 29, 1992 and February 23, 1991, respectively.

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Board of Directors and Officers

Board of Directors

Leon D. Black
Officer of Apollo Capital Management, Inc.

Craig M. Cogut 3
Officer of Apollo Capital Management, Inc.

Robert H. Falk
Officer of Apollo Capital Management, Inc.

Michael S. Gross 1*, 3
Officer of Apollo Capital Management, Inc.

John J. Hannan 1
Officer of Apollo Capital Management, Inc.

Bruce A. Karsh 3
Managing Director of Trust Company of the West

John H. Kissick 3
Officer of Lion Capital Management, Inc.

Donald E. Lasater 2, 3*
Retired Chairman of the Board and Chief Executive Officer of Mercantile Bancorporation Inc.

Lee M. Liberman 2*
Retired Chairman of the Board and Chief Executive Officer of Laclede Gas Company

Richard B. Loynd 1
Chairman of the Board, President and Chief Executive Officer of the Company

Matthew J. Morahan 2
Executive Vice President of Summit Capital Advisors

Eric B. Siegel
Officer of Apollo Capital Management, Inc.

Basil Vasiliou
Chairman of the Board of Vasiliou & Co., Inc.

Committees of the Board

1. Executive Committee
2. Audit Committee
3. Executive Compensation and Stock Option Committee

(* indicates Committee Chairman)

Corporate Officers

Richard B. Loynd
Chairman of the Board, President and Chief Executive Officer

David P. Howard
Vice-President and Chief Financial Officer

Duane A. Patterson
Vice-President and Secretary

Steven W. Alstadt
Controller

Robert T. Hensley, Jr.
Treasurer

Lynn Chipperfield
General Counsel and Assistant Secretary

James K. Pendleton
Associate General Counsel and Assistant Secretary

Presidents of Operating Companies

Brent B. Kincaid
Broyhill Furniture Industries, Inc.

K. Scott Tyler, Jr.
The Lane Company, Incorporated

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Investor Information

Transfer Agents and Registrars for Common Stock

KeyCorp Shareholder Services, Inc.
One Mercantile Center, Suite 2120
St. Louis, Missouri 63101
(314) 241-4002

First Chicago Trust Company
of New York
P.O. Box 2534, Suite 4692
Jersey City, New Jersey 07303
(201) 222-4115

Exchange Listing

Common shares are listed on the New York Stock Exchange (trading symbol: ISS).

Corporate Offices

101 South Hanley Road
St. Louis, Missouri 63105-3493
(314) 863-1100

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. on Thursday, April 27, 1995, at the Rihga Royal Hotel, 151 West 54th Street, New York, New York. Notice of the meeting and a proxy statement will be sent to shareholders in a separate mailing.

Form 10-K Annual Report

Shareholders may obtain a copy of the current Form 10-K filed with the Securities and Exchange Commission by writing to the Treasurer of INTERCO at the Corporate Offices.

Independent Auditors

KPMG Peat Marwick LLP
1010 Market Street
St. Louis, Missouri 63101
(314) 444-1400

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Notes

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INTERCO INCORPORATED

St. Louis, Missouri

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